

Healthy Growth and Yield trends

- Muthoot reported a healthy quarter with 6.5% QoQ/28% YoY growth in gold book along with slight sequential improvement in spreads (+10 bps) driven by higher yields and contained opex aiding PAT growth of 26% YoY despite higher provisions from GL/PL delinquencies. GL delinquencies are technical, with LTV at 55% in the NPA book, while PL NPAs are fully provided for.
- MFI/PL delinquencies were higher QoQ but remain well provided for. We continue to see healthy customer acquisition in GL business in Q2 (similar to Q1), with 4% QoQ growth in active customer count. Growth guidance has been raised to 25% for standalone book in FY25E, post 18% growth in H1 (Mar-Sep). The slowdown in unsecured lending has been contributing to growth in GL business.
- Higher growth and lower opex is offset by a rise in credit costs. Maintain 'BUY' rating with TP of Rs2150, valuing the NBFC at 2.5x Sep-26E ABV against RoA/RoE of 5.2%/19%. We like the NBFC for its high brand recall, customer centricity and low opex.

Strong growth trends in GL; Yields improve

Robust trends in GL book with growth at 6.5% QoQ and 40 bps QoQ improvement in yields. The slowdown in unsecured lending is a key lever to the above trends. We factor in higher loan growth for the standalone book at 25% YoY (20% earlier) for FY25E.

Rise in standalone credit costs, high PCR provides comfort

Credit cost at 1% in H1 for the standalone book has been trending higher than expectations, partly led by 100% provision against PL delinquencies (2% of loans). With increased non-gold share in standalone book (~4%), we raise credit costs assumptions across FY25-27E. Stage-3% increased QoQ for MFI book (+115 bps QoQ to 3.5%), while HL NPAs moderated QoQ by 16 bps to 1.6%. NPAs are well provided across these portfolios, with PCR at 85%/71% for MFI/HL books respectively.

Outlook and Valuations

We like the NBFC for its high brand recall, customer centricity and lower opex vs peers. With a large branch network, high share of natural walk-ins, and lowest CoF, the NBFC is best placed to offer competitive rates and maintain balance between growth and NIM in a competitive environment. We value the NBFC at 2.5x Sep-26E ABV against RoA/RoE of 5.2%/19%.

Key Data

Nifty	23,533
Equity / FV	Rs 4,015mn / Rs 10
Market Cap	Rs 713bn
	USD 8.4bn
52-Week High/Low	Rs 2,079/ 1,262
Avg. Volume (no)	5,03,828
Bloom Code	MUTH IN

	Current	Previous
Rating	BUY	BUY
Target Price	2,150	2,150

Change in Estimates

(Rs.bn)	Current	Chg (%)	Chg (%)
	FY25E	FY26E	FY25E
NII	95.54	11.12	5.0
PPOP	71.02	83.22	7.6
PAT	47.66	58.23	1.4
Adj BV (Rs)	633	735	(1.4)

Valuation (x)

	FY25E	FY26E	FY27E
P/E	15.0	12.2	10.6
P/ABV	2.8	2.4	2.1
ROAA	5.0	5.2	5.2
ROAE	18.2	19.3	19.1
BV (Rs)	696.5	808.1	936.6
EPS (Rs)	118.7	145.1	166.8

Q2FY25 Result (Rs Mn)

Particulars	Q2FY25	YoY (%)	QoQ(%)
NII	25,180	35.5	9.2
Other income	577	(2.0)	6.7
Total Income	25,758	34.3	9.2
Operating Exp.	6,608	14.9	2.7
PPoP	19,150	42.7	11.6
Provisions	2,070	1620.6	(7.4)
Tax Exp	4,568	34.7	10.6
Rep. Net Profit	12,511	26.3	16.0
Advances (bn)	905	29.2	6.4
		(bps)	(bps)
NIM (%)	10.5	76	4
RoA (%)	5.2	2	32
RoE (%)	20.0	170	152
GS 3 (%)	4.3	29	32

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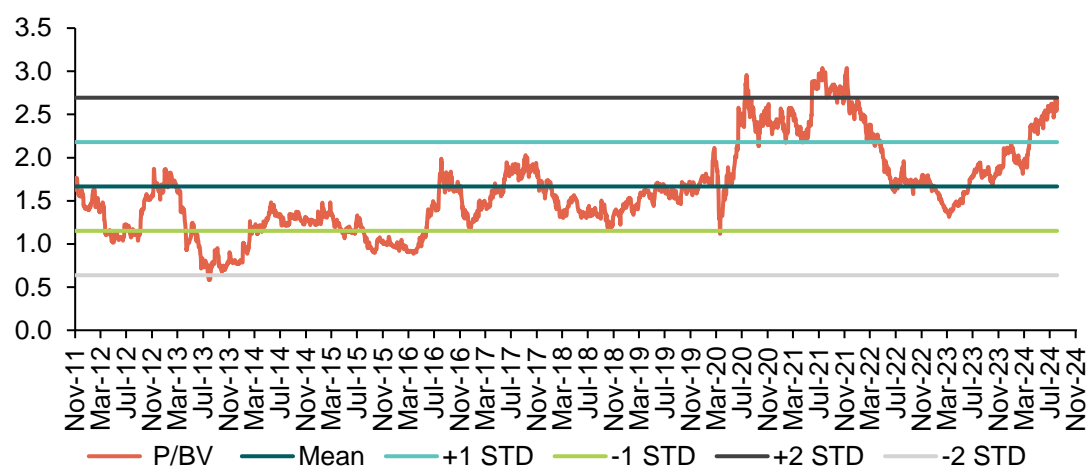
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Risks to our view: Weaker than anticipated growth, lower than expected spreads, any impact on growth from its large AUM and shorter tenor of gold loans.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Q2FY25	Q2FY24	Q1FY25	YoY (%)	QoQ (%)	Q2FY25E	Dev. (%)
Net interest income	25,180	18,584	23,049	35.5	9.2	24,718	1.9
Non-interest income	577	589	541	(2.0)	6.7	579	(0.3)
Pre-Provisioning Operating Profit	19,150	13,422	17,153	42.7	11.6	18,383	4.2
PAT	12,511	9,910	10,787	26.3	16.0	12,479	0.3

Source: Company, Dolat Capital

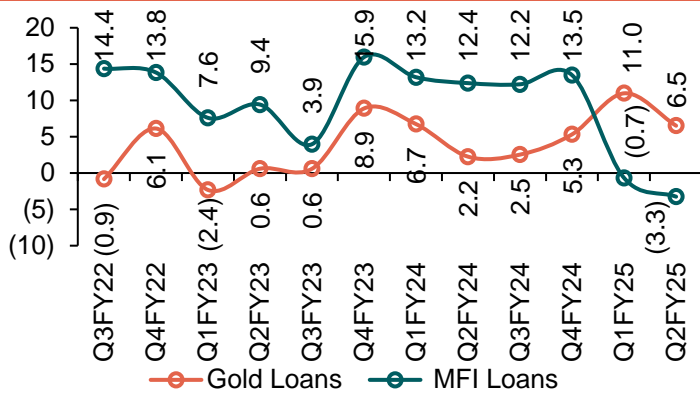
Exhibit 2: The stock currently trades at 2.4x 1-year forward P/ABV


Source: Company, Dolat Capital

Earning call KTAs

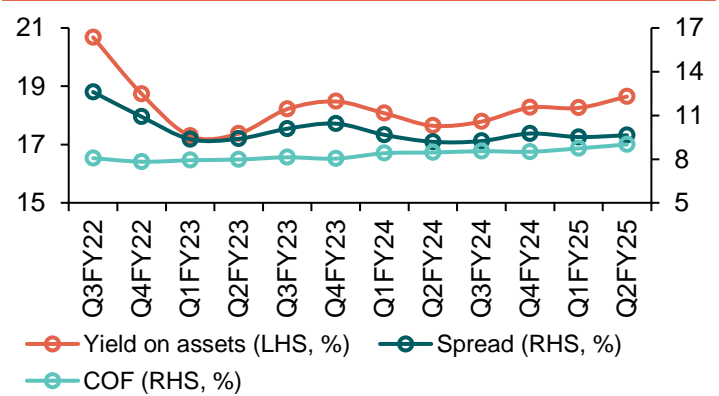
- **Guidance:** Gold loan growth guidance increased to 25% from 15% earlier. CoF has likely peaked and should remain at current levels till any reversal in benchmark rates.
- **Asset quality:** GL NPA is mainly technical, the NBFC is in the money for all GL loans. 10% ECL provisions are made as per requirements, with 55% LTV on GL NPAs. Rs2.5bn of auction done this quarter vs Rs0.7bn last quarter. Policy is not to sell the customer's gold for as long as possible. Non-gold NPA Rs1.9bn vs Rs0.9 bn in Q1. PL NPAs are fully provided for. The NBFC writes off PL loans after 180 days. There is no overlap with existing PL and GL customers. After a good track record on GL, they are given PL and do not have GL at that point. Write off is Rs160mn in Q2 vs Rs120mn last quarter. The NBFC will maintain ECL provisions at 1.4%.
- **LTV norms:** 75% LTV requirement at the time of origination. No change in regulation as far as the LTV norm is concerned.
- **Customer acquisitions:** The rise in active customers is driven by sales and marketing activities. The NBFC has also briefed up its call centers, and other online platforms, plus it is engaging with a few agencies for customer acquisition.
- **ARC update-** Of the NPA pool sold earlier to ARC, Rs350mn additional NPA were resolved this quarter. Principal outstanding at Rs1.60bn.
- **Yields:** Avg yields at 18% are lower as customers benefit from a rebate scheme. The NBFC offers better yields to its customers based on their repayment.
- **Attrition:** Not seen any significant attrition post IIFL's comeback into business.
- **Loan growth:** Loan demand continues to be healthy, partly also led by a slowdown in unsecured lending. Accrued interest at Rs17 bn. There is no auto-renewal of loans for Muthoot. In the PL book, Rs10.15bn is given to existing GL customers and Rs11.25bn to outside customers. PL loans are done from separate PL branches. There is also an SME book of Rs6.2bn, corp loans of Rs0.26bn, and loans to subsidiaries of Rs11bn in the standalone book. Ticket size breakup: Less than Rs1 lakh is 32%, Rs1 lakh to Rs3 lakh is 36% and above Rs3 lakh is 32%.

Exhibit 3: Gold book posted strong growth



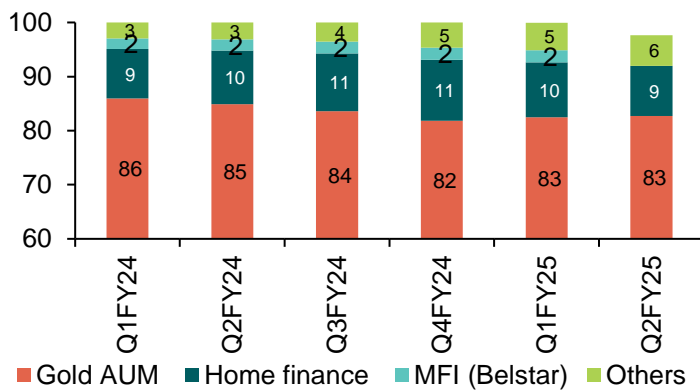
Source: Company, Dolat Capital

Exhibit 4: Spread improvement led by higher yields



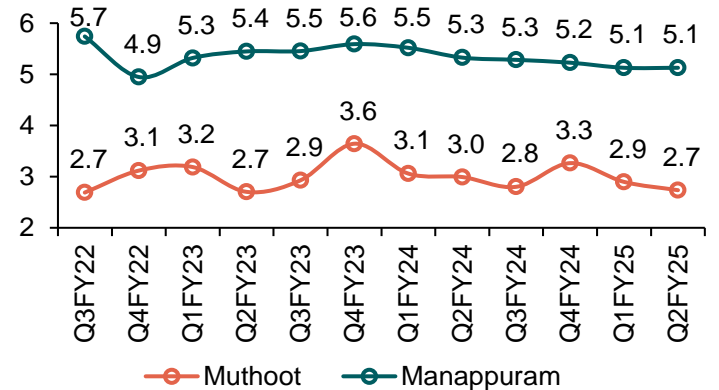
Source: Company, Dolat Capital

Exhibit 5: Non gold now contributes 17% of AUM



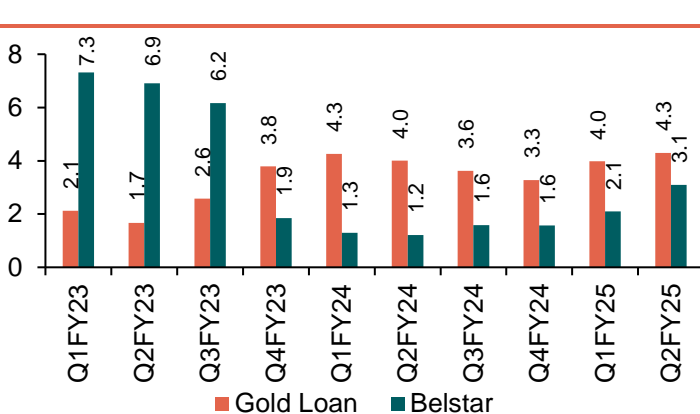
Source: Company, Dolat Capital

Exhibit 6: Lower opex/assets despite strong growth



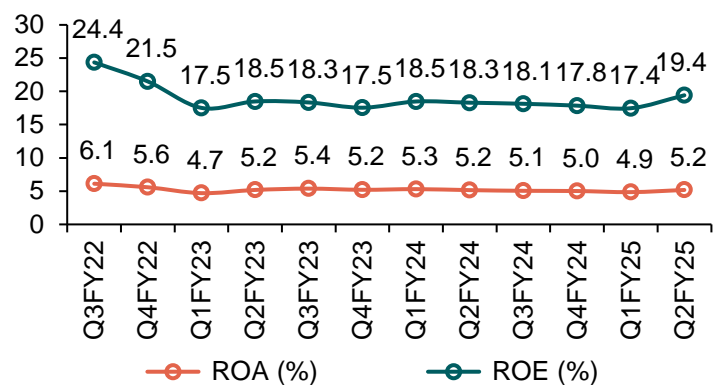
Source: Company, Dolat Capital

Exhibit 7: NPA ratios higher across gold/MFI



Source: Company, Dolat Capital

Exhibit 8: RoA/RoE healthy despite higher provisions



Source: Company, Dolat Capital

Quarterly Financials

Profit and Loss (Rs mn, Standalone)	Q2FY25	Q2FY24	Q1FY25	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
Interest Income	40,685	30,147	36,560	35.0	11.3	1,24,476	1,03,686	20.1
Interest Expense	15,505	11,563	13,511	34.1	14.8	46,548	36,991	25.8
Net Interest Income	25,180	18,584	23,049	35.5	9.2	77,928	66,695	16.8
NIM (%)	10.5	9.8	10.5	76 bps	4 bps	10	9	58 bps
Non-Interest Income	577	589	541	-2.0	6.7	2,465	1,751	40.8
Total Income	25,758	19,173	23,590	34.3	9.2	80,393	68,446	17.5
Employee expenses	3,839	3,196	3,832	20.1	0.2	13,869	11,994	15.6
Other expenses	2,769	2,554	2,604	8.4	6.3	10,058	9,182	9.5
Total Operating Expenses	6,608	5,751	6,437	14.9	2.7	23,927	21,177	13.0
Cost to Income (%)	25.7	30.0	27.3	-434 bps	-163 bps	29.8	30.9	-118 bps
Pre-Provisioning Operating Profit	19,150	13,422	17,153	42.7	11.6	56,466	47,270	19.5
Provisions	2,070	120	2,236	1,620.6	-7.4	1,978	605	226.7
PBT	17,080	13,302	14,917	28.4	14.5	54,488	46,664	16.8
Tax expense	4,568	3,392	4,130	34.7	10.6	13,991	11,929	17.3
-effective tax rate	26.7	25.5	27.7	125 bps	-94 bps	25.7	25.6	11 bps
PAT	12,511	9,910	10,787	26.3	16.0	40,497	34,735	16.6
EPS (Rs)	31	25	27	26.3	16.0	101	87	16.6
AUM	9,01,965	6,90,016	8,43,238	30.7	7.0	7,58,270	6,32,098	20.0
RoA	5.2	5.2	4.9	2 bps	32 bps	5.1	4.9	29 bps
RoE	19.4	18.3	17.4	112 bps	195 bps	17.9	17.6	23 bps
ABV	656.0	552.5	629.1	18.7	4.3	550.9	471.0	16.9

Source: Company, Dolat Capital

Balance Sheet Analysis (Rs mn, Standalone)	Q2FY25	Q2FY24	Q1FY25	YoY % / bps	QoQ % / bps
LIABILITIES AND EQUITY					
Share capital	4,014.6	4,014.6	4,014.6	0.0	0.0
Reserves & surplus	2,52,823.1	2,17,790.7	2,39,793.3	16.1	5.4
Shareholders' funds	2,63,337.8	2,21,805.3	2,52,550.7	18.7	4.3
Borrowings	7,23,433.2	5,53,217.7	6,58,905.7	30.8	9.8
Other liabilities and provisions	18,411.2	19,054.4	14,136.9	(3.4)	30.2
TOTAL	10,05,182	7,94,077	9,25,593	26.6	8.6
ASSETS					
Cash & bank balances	66,144.8	63,704.7	44,971.4	3.8	47.1
Investments	26,983.1	23,539.4	22,374.6	14.6	20.6
Loans	9,04,914.4	7,00,161.4	8,50,451.0	29.2	6.4
Fixed and other assets	7,140.0	6,671.9	7,796.3	7.0	(8.4)
TOTAL	10,05,182	7,94,077	9,25,593	26.6	8.6
Cash as a proportion of total assets (%)	6.6	8.0	4.9	-144 bps	172 bps
Loans to borrowings (%)	125.1	126.6	129.1	-148 bps	-398 bps
Leverage (EOP; x)	3.8	3.6	3.7	24 bps	15 bps

Source: Company, Dolat Capital

Asset Quality	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ % / bps	YoY % / bps
Gold finance NPA (%)	4.3	4.0	3.6	3.3	3.9	4.3	29bps	32bps
Belstar NPA (%)	1.3	1.2	1.6	1.6	2.1	3.1	100bps	188bps
Muthoot Homefinance NPA (%)	3.1	3.2	2.9	1.6	1.8	1.6	(20bps)	(32.9bps)

Source: Company, Dolat Capital

Loan Book Analysis (Rs mn, Consolidated)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ % / bps	YoY % / bps	Loan mix %
Gold AUM	6,75,171	6,92,214	729,000	8,09,000	8,61,636	6.5	27.6	82.7
MFI (Belstar)	78,741	88,346	100,232	99,519	96,253	(3.3)	22.2	9.2
Home finance	16,157	17,834	20,353	21,986	24,410	11.0	51.1	2.3
Others	26,165	29,338	41,417	48,170	59,193	19.0	138.1	5.7
AUM	7,94,934	8,27,731	890,787	9,80,479	10,41,492	6.2	31.0	100.0

Source: Company, Dolat Capital

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY24A	FY25E	FY26E	FY27E
Interest Income	1,24,476	1,54,923	1,83,057	2,10,588
Interest expense	46,548	59,380	71,426	82,140
Net interest income	77,928	95,543	1,11,632	1,28,448
Other income	2,465	2,844	3,380	3,891
Total income	80,393	98,386	1,15,012	1,32,339
Total expenses	23,927	27,358	31,792	36,641
- Employee cost	13,869	15,811	18,341	21,092
- Other	10,058	11,547	13,452	15,549
Pre provisioning profit	56,466	71,029	83,220	95,698
Provisions	1,978	6,623	4,526	5,205
Profit before taxes	54,488	64,406	78,693	90,493
Tax provision	13,991	16,746	20,460	23,528
Profit after tax	40,497	47,661	58,233	66,965
Adjusted profit	40,497	47,661	58,233	66,965

Balance Sheet (Rs Mn)

Particulars	FY24A	FY25E	FY26E	FY27E
Sources of Funds				
Equity Capital	4,015	4,015	4,015	4,015
Reserves & Surplus	2,38,888	2,75,587	3,20,426	3,71,989
Net worth	2,42,903	2,79,602	3,24,441	3,76,004
Borrowings	5,87,831	7,46,545	8,58,527	9,87,306
Other liabilities & provisions	18,155	20,444	23,607	23,820
Total Liabilities	8,48,889	10,46,590	12,06,575	13,87,130
Application of Funds				
Cash and equivalents	50,459	60,639	72,429	83,294
Investments	21,288	15,593	18,625	21,418
Advances	7,70,014	9,62,518	11,06,896	12,72,930
Fixed assets	4,384	4,822	5,305	5,835
Other assets	2,744	3,018	3,320	3,652
Total Assets	8,48,889	10,46,590	12,06,575	13,87,130

E – Estimates

Important Ratios

Particulars	FY24A	FY25E	FY26E	FY27E
(A) Margins (%)				
Yield on advances	17.2	17.5	17.4	17.4
Yield on interest earning assets	15.9	16.5	16.4	16.4
Cost of funds	8.6	8.9	8.9	8.9
Spread	8.7	8.6	8.5	8.5
NIM	10.0	10.2	10.0	10.0
(B) Asset quality and capital ratios (%)				
Gross stage 3	3.3	3.0	3.0	3.0
Net stage 3	2.9	2.7	2.7	2.7
CAR	0.0	0.0	0.0	0.0
Tier 1	0.0	0.0	0.0	0.0
RoA	5.1	5.0	5.2	5.2
RoE	17.9	18.2	19.3	19.1
(D) Measures of Investments				
EPS - adjusted	100.9	118.7	145.1	166.8
BV	605.0	696.5	808.1	936.6
DPS	23.2	27.3	33.4	38.4
Dividend payout ratio	23.0	23.0	23.0	23.0
(E) Growth Ratios (%)				
Net interest income	16.8	22.6	16.8	15.1
PPoP	19.5	25.8	17.2	15.0
Adj PAT	16.6	17.7	22.2	15.0
Advances	19.8	25.0	15.0	15.0
Total borrowings	18.2	27.0	15.0	15.0
Total assets	16.9	23.3	15.3	15.0
(F) Valuation Ratios				
Market Cap (Rs. mn)	7,12,911	7,12,911	7,12,911	7,12,911
CMP (Rs.)	1,776	1,776	1,776	1,776
P/E (x)	17.6	15.0	12.2	10.6
P/BV (x)	2.9	2.5	2.2	1.9
Div Yield (%)	1.3	1.5	1.9	2.2

E – Estimates

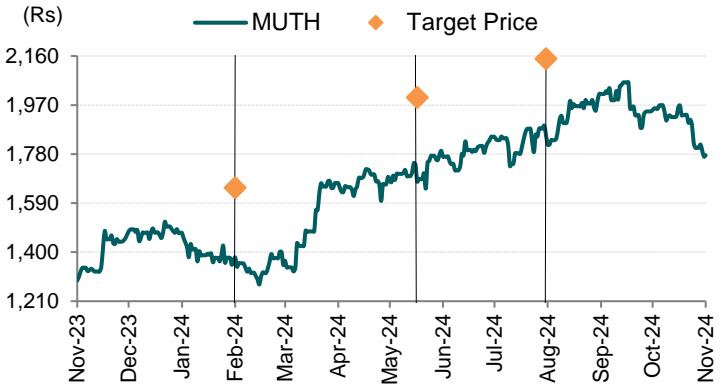
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	(9)	(2)	38
Rel to NIFTY (%)	(3)	0	17

Shareholding Pattern

Particulars	Mar'24	Jun'24	Sep'24
Promoters	73.4	73.4	73.4
MF/Banks/FIs	14.7	14.6	13.3
FIIIs	8.3	8.7	9.9
Public / Others	3.6	3.4	3.5



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-24	BUY	1,650	1,379
May-24	BUY	2,000	1,674
Aug-24	BUY	2,150	1,853

*Price as on recommendation date

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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Dolat Capital Market Private Limited.

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

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